



# Treasury Trends

*Bringing currency to the Arizona Taxpayer*

*David A. Petersen, State Treasurer*

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This month's  
character trait:

## ***Honor:***

*Respecting those in  
leadership because of  
the higher authority they  
represent.*

*Treasury Trends  
gets a new look*

*Electronic trading  
provides  
managers with  
real time, best  
execution.*

## **LGIP Performance (a new look)**

The Board of Investment, in the regular meeting held on June 15, 2005, was informed of the performance of the Local Government Investment Pool (LGIP), LGIP-Government, and LGIP-Core-Mix. All Pools continued to increase their yields over the previous month. Balances of the Pools also remained relatively stable for the month.

Beginning with this issue of Treasury Trends, recent Pool performance numbers will be posted on the last page. This page will also serve as a fact sheet containing a description of each Pool along with a rolling twelve month performance table for the Pools offered by the Arizona State Treasurer's Office. Contacts and other information on the Pools will also be provided on this condensed one page summary sheet that you can keep handy.

## **LGIP Portfolio Managers Add New Electronic Trading Platform**

The Arizona State Treasurer's Office (ASTO) recently added Bloomberg's BondTrader (BBT) to enhance its US Government and Agency bond trading capabilities. This new application allows our portfolio managers to access multiple real-time bids or offers (sells or buys) enabling precision and efficiency in trade execution. Its ability to view market depth of dealers will help the managers quickly find the best trades available. This is extremely helpful in times of volatile markets.

In addition, BBT will provide best execution audit compliance through complete transaction information via a streamlined operations ticketing process. All trade tickets are stored on the BBT database and can be quickly pulled for audit and compliance purposes.

BBT is used by thousands of money managers both domestically and internationally. It comes to the ASTO as an added module to our existing contract with Bloomberg. Bloomberg is the leading global provider of data, news and analytics. The Bloomberg "Terminal" and Bloomberg's media services used at the ASTO provide real-time and archived financial and market data and analytics, pricing, trading, news and communication tools in a single, integrated package. Because BBT is part of Bloomberg, it runs on the same dedicated secure line as our regular Bloomberg services. The Bloomberg organization is constantly enhancing the system, and the ASTO looks forward to continuing its growth using their most up to date technology available.

## Total Return Versus Yield

With the introduction of the LGIP-Core Mix and LGIP-Core-Gov. Pools, the ASTO now gives its participants a choice of investment time horizons. This means that you will be hearing both “total return” and “yield” used in evaluating the performance of the new Pools. So what is the difference between total return and yield? Here is a short primer.

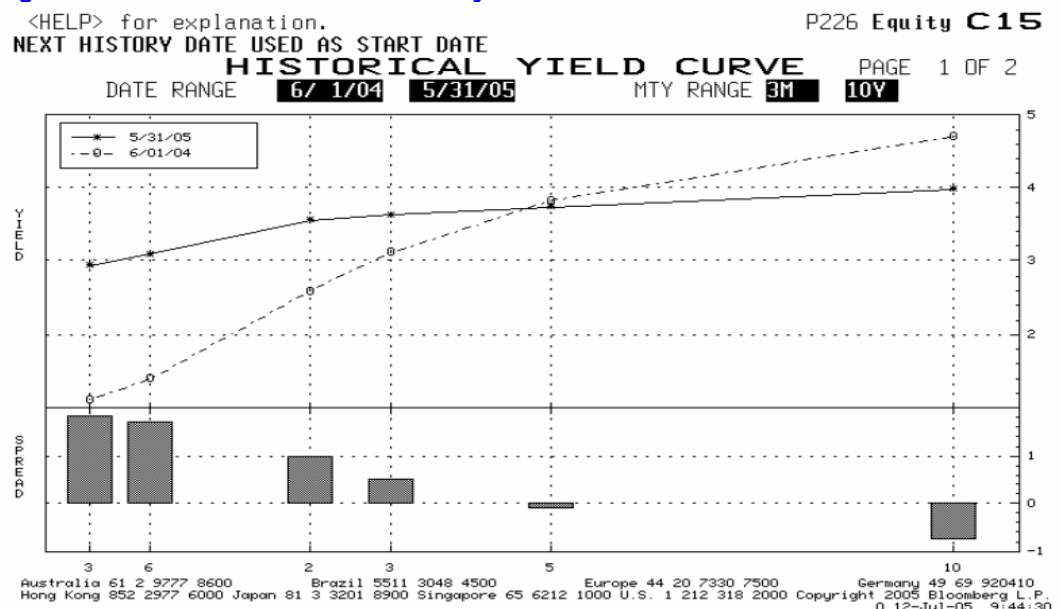
Periodic income usually comes to mind first when discussing investment returns. For the LGIP and LGIP-Gov, this income is the monthly distributions the ASTO makes to participants based on their monthly holdings. Total return goes one step further as it factors in price changes and market value fluctuations over the same time period. Since the Pools strive to maintain a \$1.00 net asset value (NAV), there is no price appreciation or depreciation in the principal of an investment made into either of these Pools. Because of this, the ASTO has historically reported its returns as a yield number.

The two new Pools will offer participants the opportunity for capital appreciation (growth in their principal value) from increases in market value of the Pools. For example, if you put \$1 million into the LGIP-Core Mix in April 2005 when the NAV was \$1.000, your investment would be worth \$3,000.00 more based on the NAV of \$1.003 at the end of May 2005. This appreciation would be in addition to the yield that you earned during the holding period. The same is true for downward movements in the market. For this reason, total return is usually used to measure longer term investment horizons that take into effect fluctuating markets over time.

If your organization wants to target a longer term horizon as part of its investment strategy, the two new Pools may be a good fit. If you are interested in learning more, please give our office a call and we will be happy to answer your questions.

## Yield Curve Perspective (source: Bloomberg)

Change in the 3Month to 10 Year US Treasury Curve for One Year.



**LGIP: local & state government working together  
to safeguard Arizona taxpayers' money.**

*Without NAV  
fluctuations, yield  
equals return.*

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We're on the Web!  
[www.aztreasury.gov](http://www.aztreasury.gov)

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# Arizona State Treasurer's Office

## Local Government Investment Pools (LGIP)

### Fact Sheet on the Pools

## OVERVIEW

### LGIP (\$3.2 Billion as of 05/31/05)

Money market type fund designed to maximize your cash management program's efficiencies by providing a safe and reliable source of liquidity from the fund's portfolio of government and investment-grade domestic securities. Maximum weighted average maturity (WAM) is 240 days.

### LGIP-Government (\$1.6 Billion as of 05/31/05)

Similar in style to the LGIP, but invests solely in securities that are backed by the full faith and credit of the US Government. Maximum WAM is 180 days.

### LGIP-Core Mix (\$24.4 Million as of 05/31/05)

This fund invests in a longer term horizon than the LGIP cash management fund and adds the potential of total return from feasible price appreciation within the fund's portfolio of government and investment-grade domestic securities. Redemptions and Purchases are limited to the first business day of the month. Duration target is Merrill 1-5 US Domestic Master Index (not to exceed .75 years of index).

### LGIP-Core-Government

Similar in style to LGIP-Core Mix, but invests solely in securities that are backed by the full faith and credit of the US Government. Duration target is Merrill 1-5 US Treasuries Index (not to exceed .75 years of index).

## RECENT PERFORMANCE

LGIP			LGIP-Gov.		LGIP-Core Mix		LGIP-Core Gov.	
Month	Yield	WAM	Yield	WAM	Yield	NAV	Yield	NAV
May '05	2.77	96	2.62	121	3.45	1.003		
Apr '05	2.63	99	2.37	104	2.92	1.000		
Mar '05	2.48	93	2.29	140	2.56	1.000		
Feb '05	2.47	100	1.92	125				
Jan '05	2.30	100	1.92	142				
Dec '04	2.21	146	1.80	79				
Nov '04	2.06	152	1.72	89				
Oct '04	1.90	152	1.57	102				
Sep '04	1.81	163	1.45	114				
Aug '04	1.72	167	1.39	117				
Jul '04	1.59	181	1.25	137				
Jun '04	1.45	72	1.06	123				

Yields net of fees

Initial Funding Mar-05

Currently Unfunded

## ADVANTAGES

- Professionally managed by a team of educated, experienced former public investment officers and private sector portfolio managers and traders.
- Dedicated and separate Compliance, Accounting and Portfolio Management departments ensure our dedication to meeting the LGIPs' objectives.
- Bound by the Arizona Revised Statutes and the oversight of the Arizona Legislature.
- No contracts to negotiate. Accounts are opened with an executed governing body resolution.
- Funds are managed from the viewpoint of public entities for public entities.
- Multiple accounts within the funds are available for your accounting needs.

## IMPORTANT INFORMATION

### Ownership and Earnings Calculation

The LGIP investors are participating in a commingled investment pool in which they are conveyed a pro rata interest in the total value of all securities rather than direct ownership of those securities. Investors are entitled to an apportioned amount of the Pool's income and expenses based on the average daily balances of participating accounts using the accrual basis of accounting. A management fee is charged at the rate of 0.0080% times the Pool's average daily account balance. This is the only operating expense charged to the fund. Cash distributions of net earnings are made monthly.

Please read the latest "Arizona State Treasury Investment Policy for Invested Monies" available online at [www.aztreasury.gov](http://www.aztreasury.gov) or through our office for important additional information and disclosures.